

FINANCIAL STABILITY REVIEW 2024

Press conference, 21 November 2024





**How has the German financial system
fared up to this point?**

During the period of low interest rates, vulnerabilities built up in the German financial system.



Underestimation of credit risk



Overvaluation of assets and credit collateral



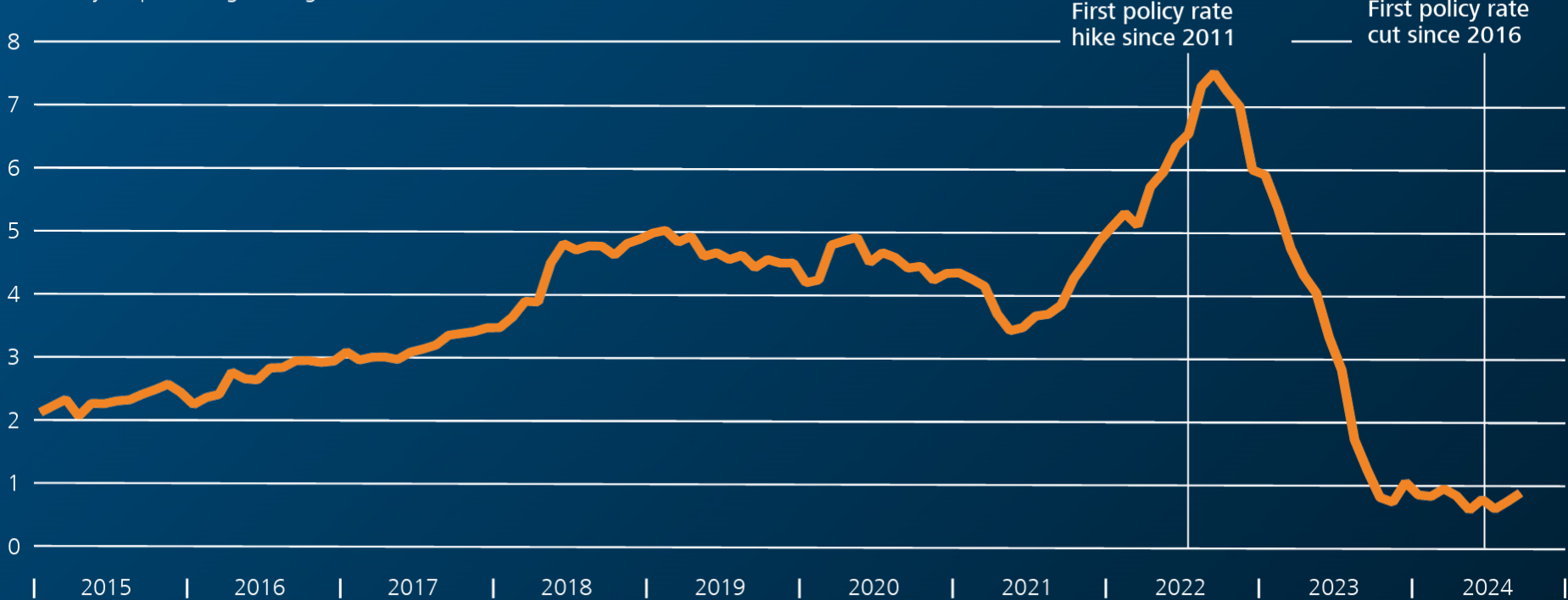
Interest rate risk

How is the German financial system currently faring?

Banks' lending is stabilising at a low level.

German banks' lending to the domestic private non-financial sector

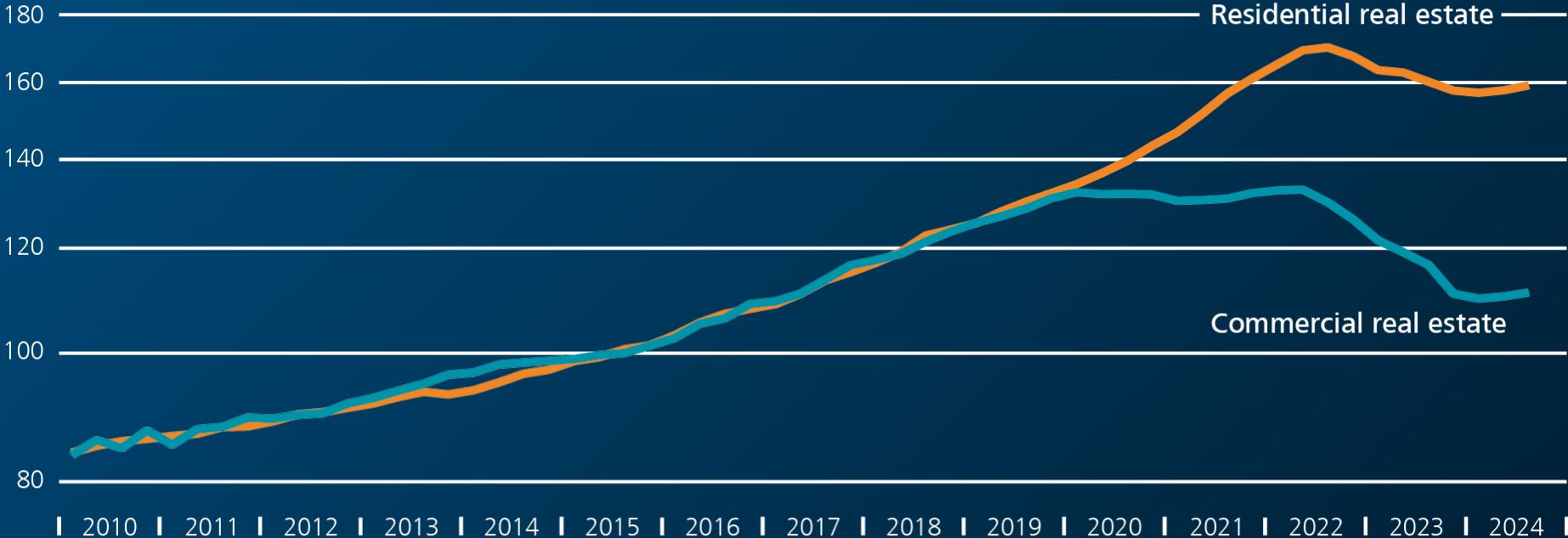
Year-on-year percentage change



Residential real estate prices have risen for the first time in two years and commercial real estate prices are not declining any further.

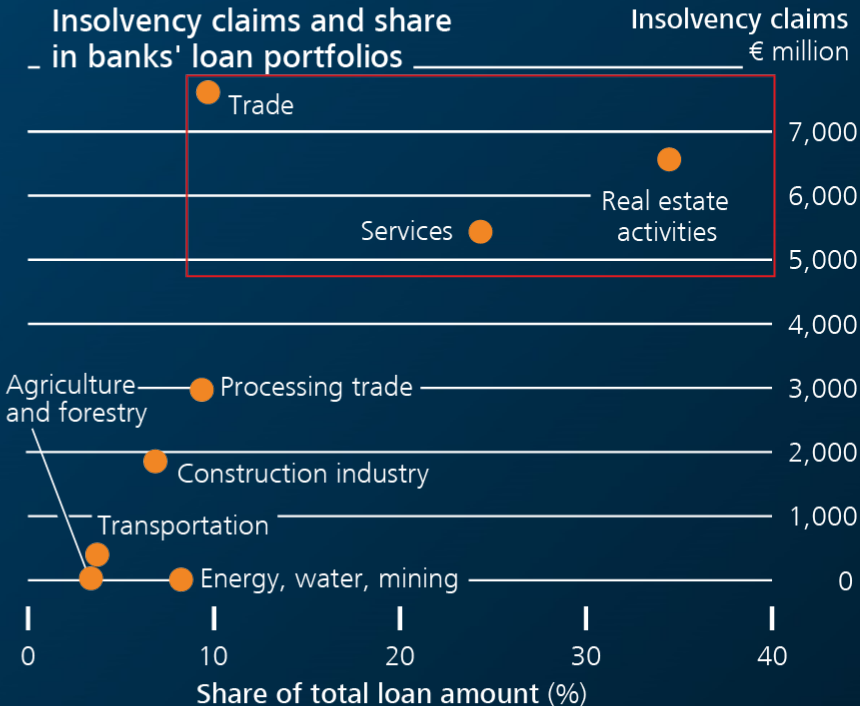
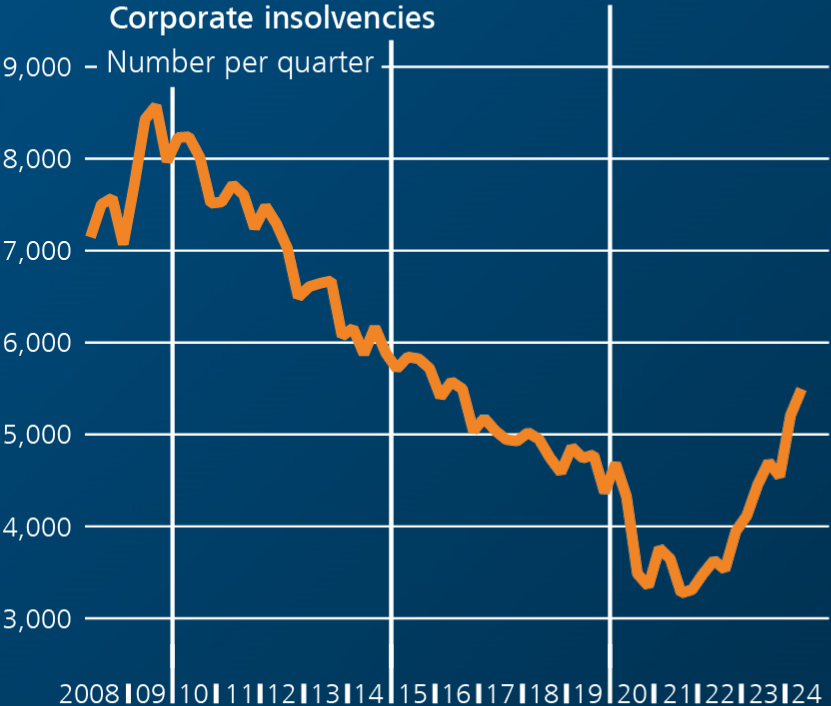
Real estate prices in Germany

2015 = 100



Corporate insolvencies have risen significantly, but from a low level. Insolvency claims have climbed considerably.

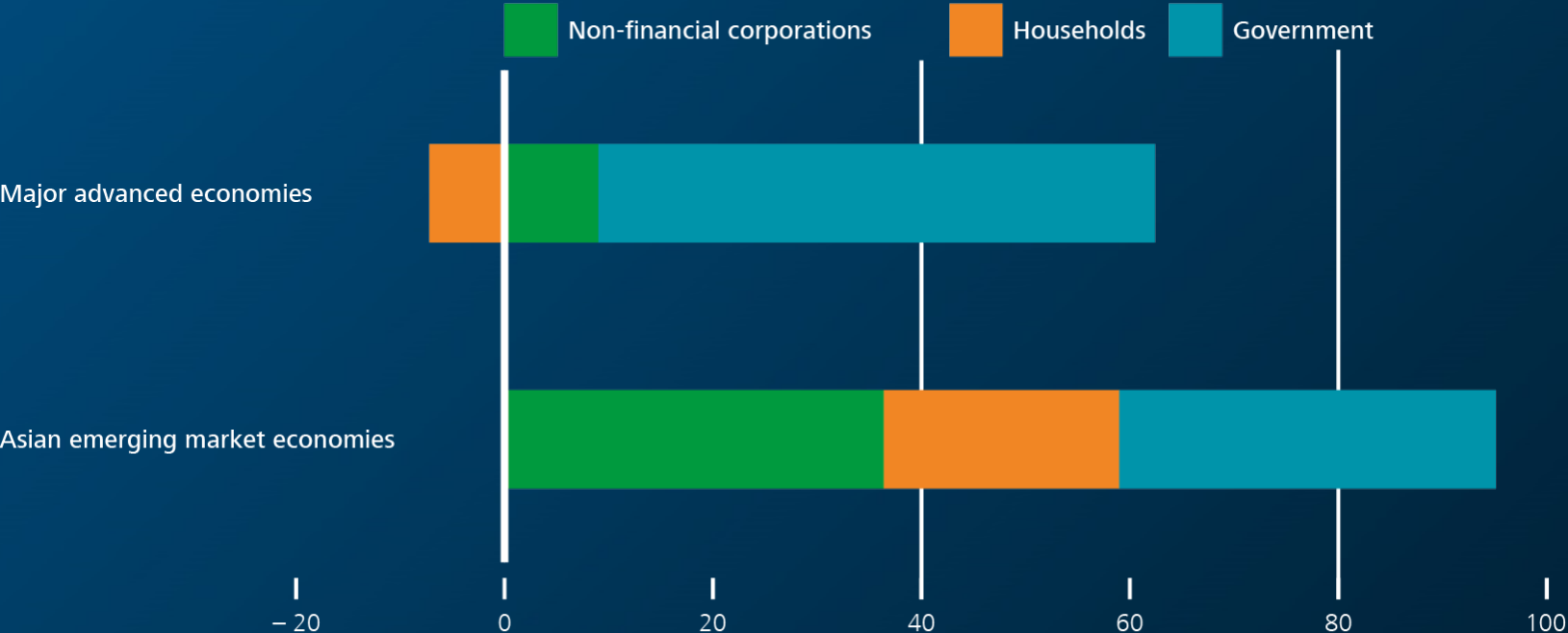
Corporate insolvencies in Germany



The financial system is vulnerable to problematic developments and shocks due to high debt levels worldwide.

Changes in debt relative to GDP

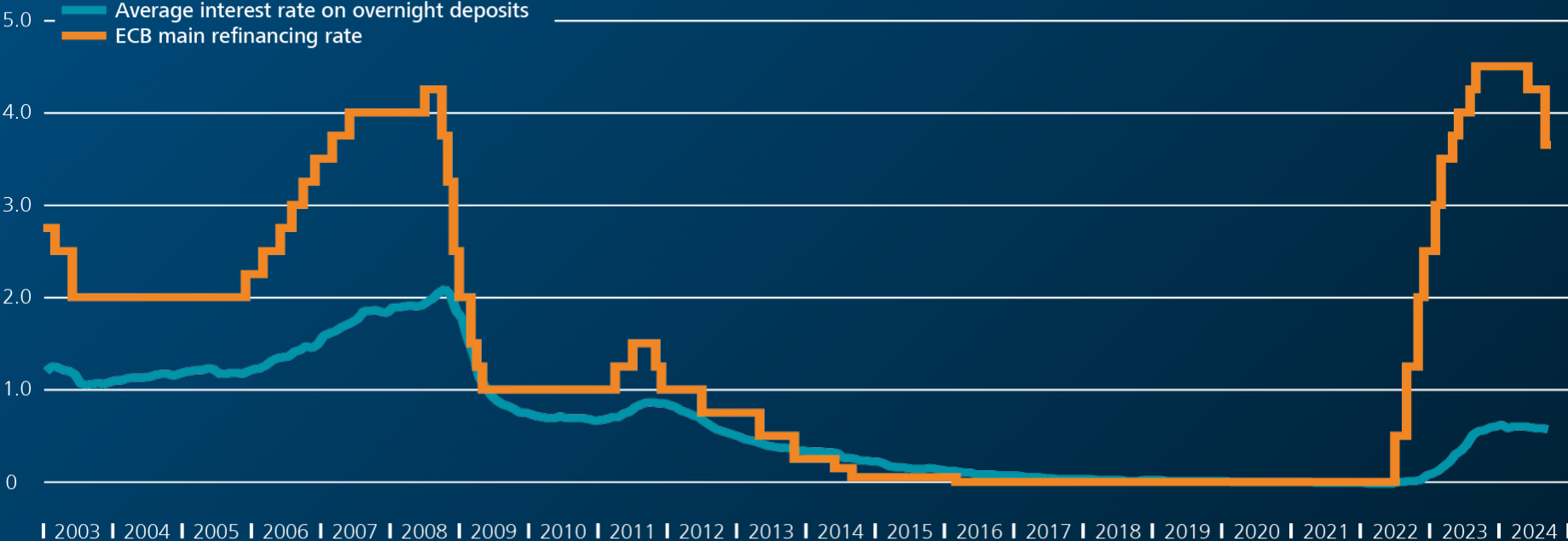
In percentage points, change from Q1 2008 to Q2 2023



Interest rates on overnight deposits were not raised as sharply as would have been expected based on past trends.

Interest rates in Germany

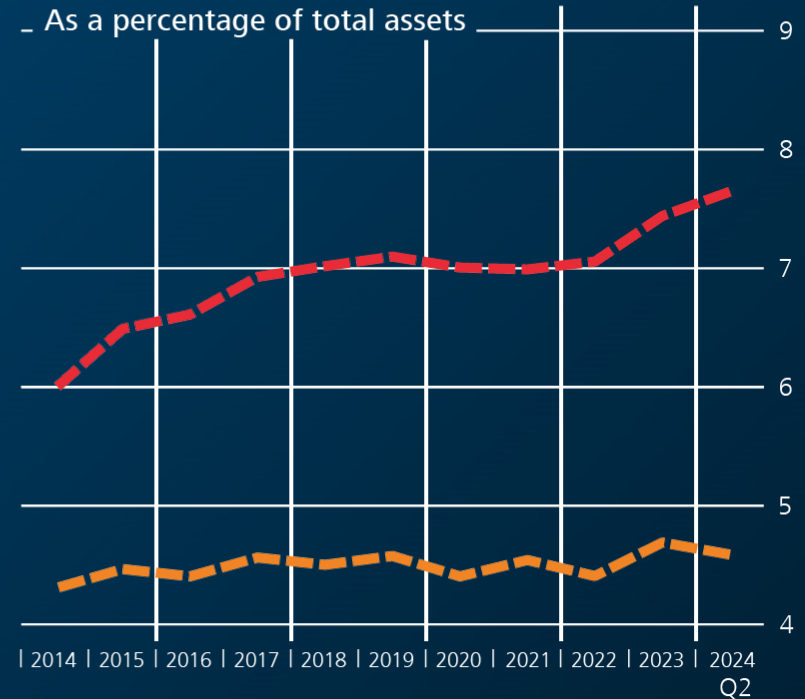
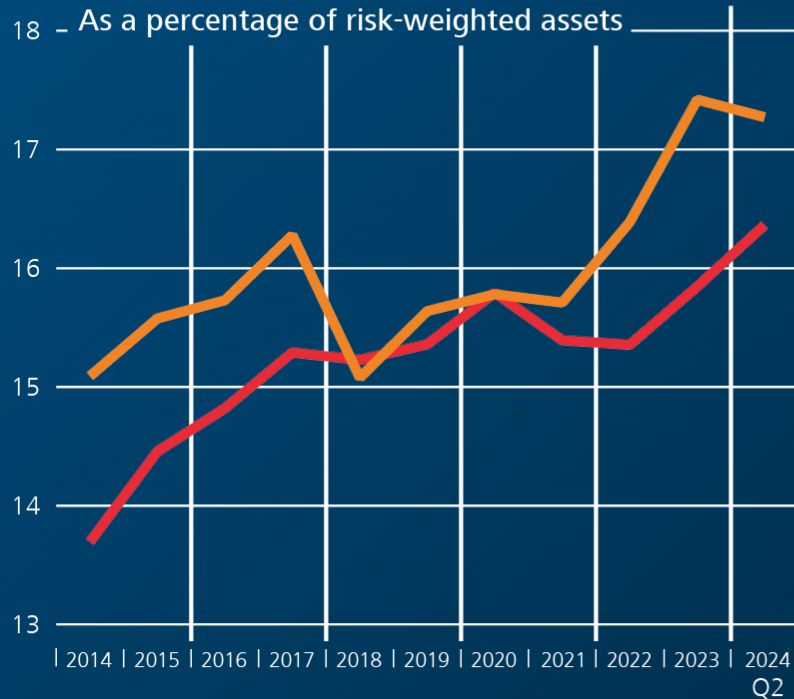
%



Banks' capitalisation has improved steadily over recent years.

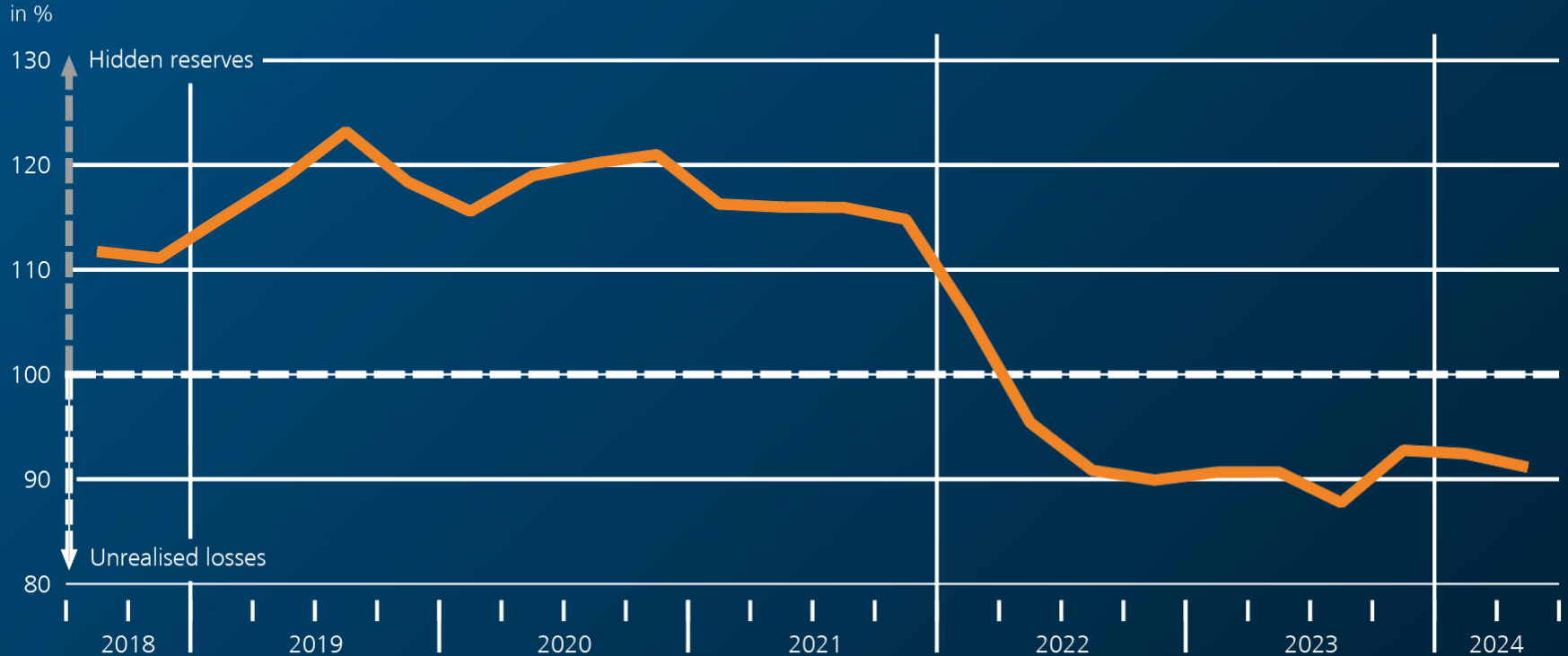
German banks' CET1 capital

— Large, systemically important institutions — Savings banks and credit cooperatives



German life insurers have large unrealised losses.

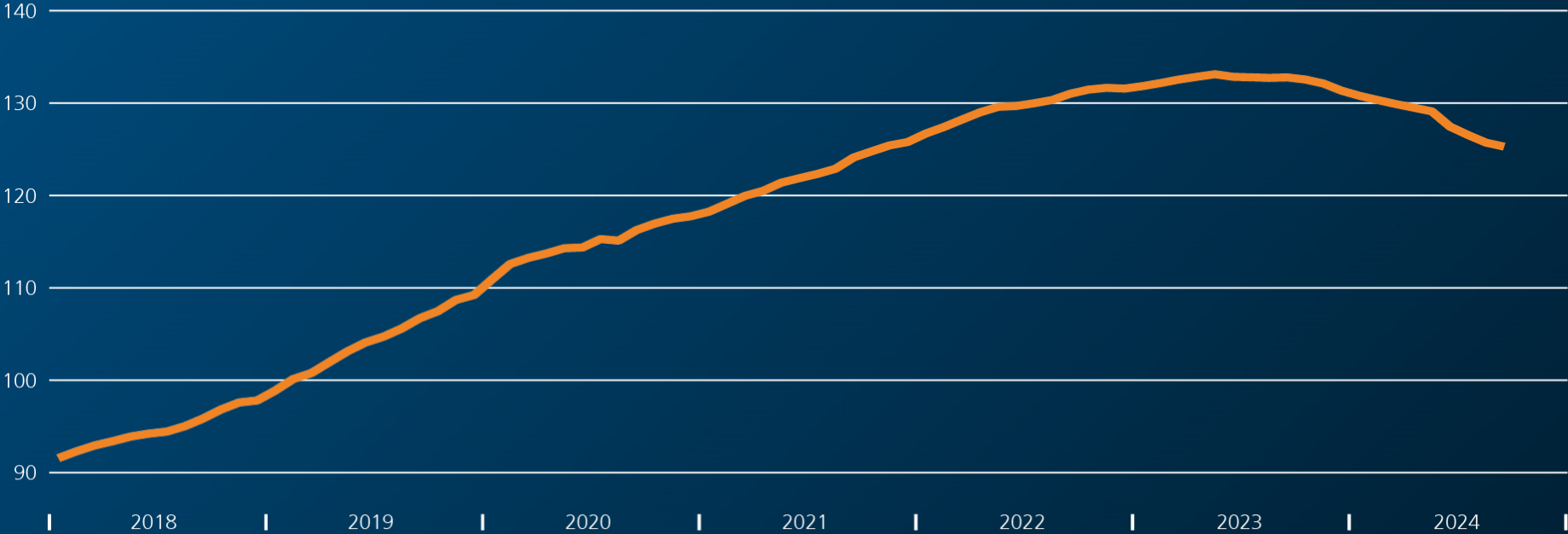
Hidden reserves and unrealised losses of German life insurers



German open-end retail real estate funds have most recently seen net outflows.

Net asset value of German open-end retail real estate funds

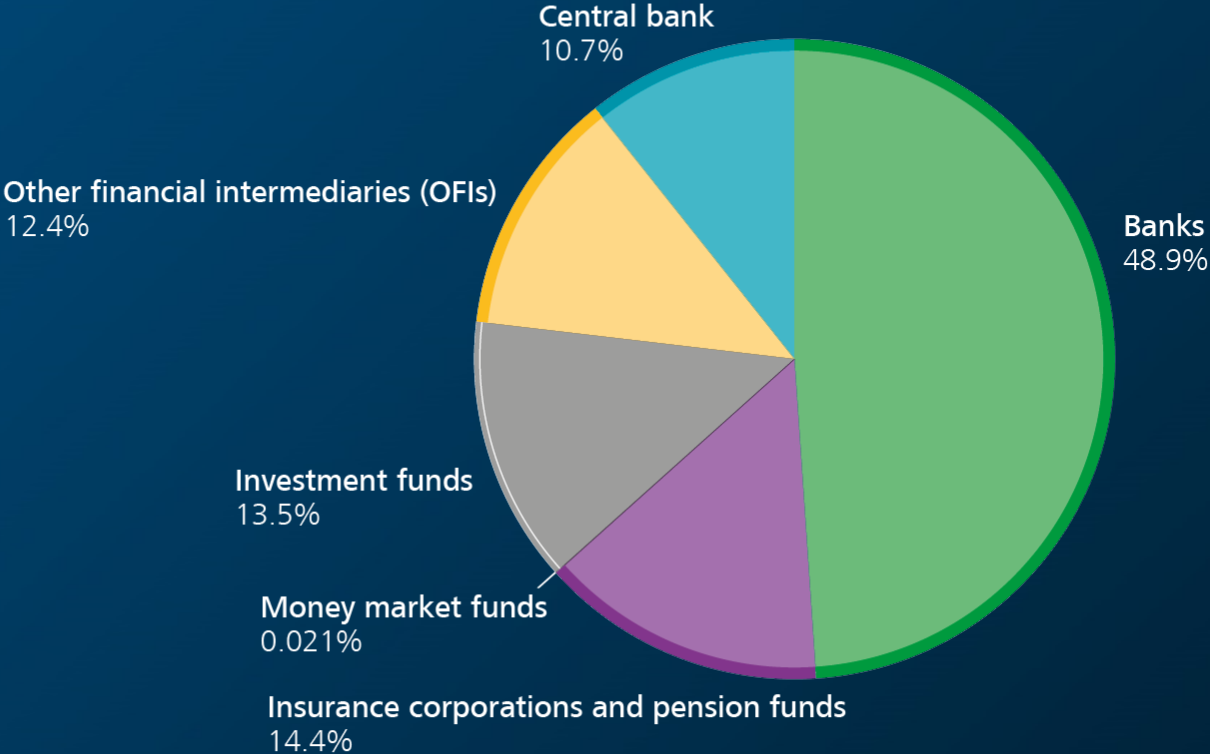
€ billion



Structural change in the financial system has seen non-bank financial intermediaries become more significant.

Structure of the German financial system

Shares of financial assets, as of Q2 2024



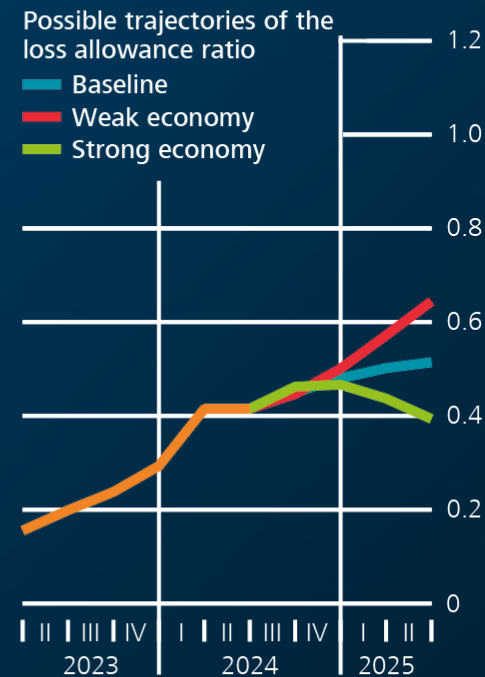
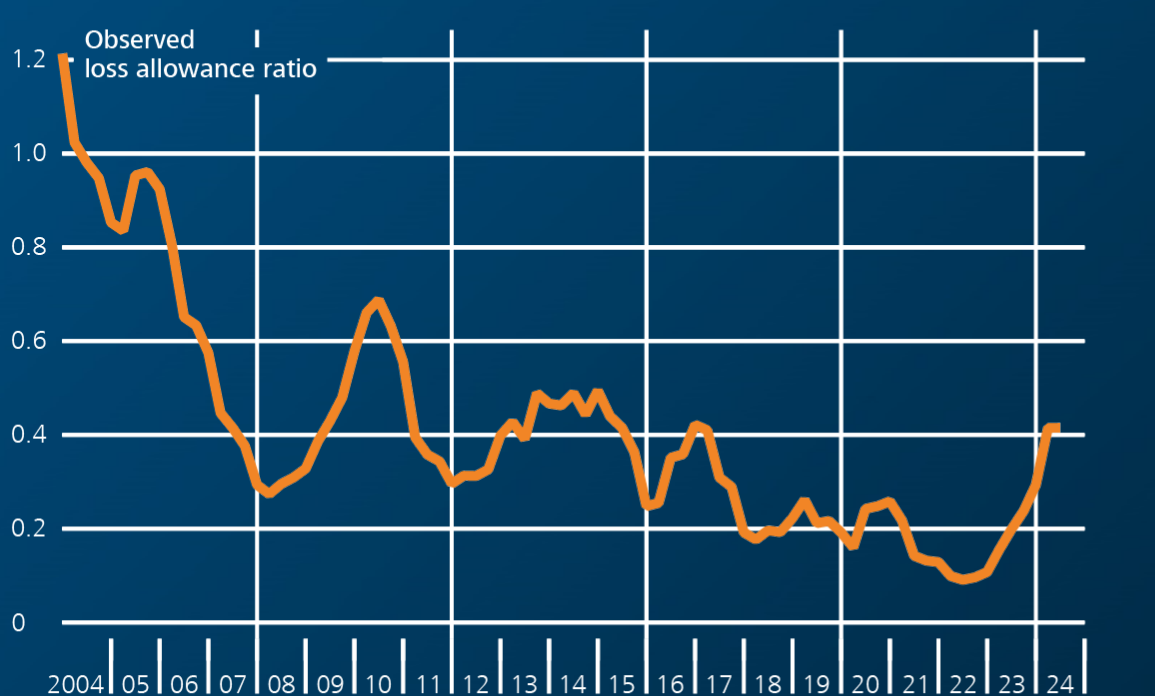
How will the German financial system fare in the future?



Banks have made significantly higher loan loss allowances. Ratios could increase further if economic activity were to weaken.

Loss allowance ratio in the German banking system

%



Implications for macroprudential policy



The **vulnerabilities** that built up during the protracted period of low interest rates are steadily **diminishing**, though only gradually. The financial system **weathered** the phase of exceptionally **strong rises in interest rates well** overall. The **package of macroprudential measures remains appropriate**.



The **preventive orientation** of **macroprudential policy** needs to be **strengthened**.



Available **data** on non-bank financial intermediaries need to be shared between macroprudential authorities **across Europe** in the future, and **worldwide data sharing** likewise needs to be improved.



Climate policy should have a **long-term focus**. A strict **obligation to disclose information on carbon emissions** can mitigate the risks faced by the German financial system.



Given the **important role played by investment funds** on the German government bond market, it is vital that we **expand our insights** into their **strategies** and **behaviour**.

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